ANNUAL REPORT

MARCH 31, 1990

GEORGETOWN SHIPYARD INC.

R7-J FAST RESCUE BUILT FOR THE CANADIAN COAST GUARD

91-03705/

ANNUAL REPORT

GEORGETOWN SHIPYARD INC.

MARCH 31, 1990

Established by an Act of the Provincial Legislature (23 Eliz. II (2) Cap. 71)

Executive Council under authority of Section 12 did order and issue a Proclamation proclaiming the said "Act to Incorporate Georgetown Shipyard Inc." to come into force effective 5 December 1974.

GEORGETOWN SHIPYARD INC.
P.O. Box 220
Georgetown
Prince Edward Island
C0A 1L0

DIRECTORS OF GEORGETOWN SHIPYARD INC.

AS AT MARCH 31, 1990

Gerard Fitzpatrick, Chairman

James C. Johnson

Rory L. Beck

Blair Campbell

John Sullivan

Everett MacDonald

Myrtle Jenkins - Smith

The Honourable Robert Morrissey
Minister Responsible for Georgetown Shipyard Inc.
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Sir,

In accordance with the provisions of the "Act to Incorporate Georgetown Shipyard Inc.", we submit the Annual Report of Georgetown Shipyard Inc. for the fiscal year ending March 31, 1990.

The Board of Directors is pleased to report that there were sales of $13,676,620 and a net profit of $559,000 for the fiscal year ending 31 March 1990.

The Canadian shipbuilding industry remained at a depressed level in the years 1989 and 1990 and the outlook in the near future is not encouraging. The international market was controlled by foreign shipyards heavily subsidized by their national governments. The domestic market for commercial shipbuilding was inconsistent, and several vessels were contracted out to subsidized foreign shipyards. The requirements for the government fleets were cut back (and in some cases cancelled) because of fiscal restraint programs. The federal government will, however, continue to come to tender each year for small replacement vessels for the Coast Guard, Fisheries and Oceans, and the Navy. The fishing industry is at the low end of its cyclical swing and there will be a future demand for smaller sophisticated vessels to replace the aging fleets.

The ship repair market continued to decline as the older fishing vessels were retired and are replaced with vessels too large for our existing haul out facility. The four new offshore trawlers built for O'Donnell Usen (three at Georgetown) are too large for our docking facilities, and the six smaller vessels they replaced that we had traditionally refitted have been retired.

The industrial products business remained steady in the year. Although this is a very competitive market with many small fabricators after the work, Georgetown has an opportunity to capture a portion of the work with the application of the CAD/CAM system.

Georgetown Shipyard will face a difficult period in the short term. The domestic shipbuilding industry, however, is in a period of "rationalization" as some companies have closed and others will fall by the wayside. There will be better opportunities as the production capacity of the industry diminishes. Georgetown has increased its capabilities through modern technology and upgraded production equipment, and has positioned itself to compete more successfully in the available market. The Company has also increased the range of products and services through technology to diversify from the traditional product lines.

The shipyard had the opportunity to upgrade some facilities in the year through federal grants earned under a Productivity Improvement Plan and other programs. Improvements included new buildings (small fabrication shop, burn shop and stores buildings), new equipment (overhead cranes for new shops, plate rolls, press brake, lathe, material handling equipment) and upgrading (main shop electrical components, burning equipment to CAD/CAM status, design office capability). These improvements will greatly increase our competitive position by reducing production costs and maintenance expenses on the old equipment.

The Company enjoyed a high level of production in the first eight months of the fiscal year (April - November 1989) but production declined to a low level in the last four months (December 1989 - March 1990) as the major shipbuilding project was completed.

A new major shipbuilding contract was awarded to Georgetown on 31 January 1990 by the federal government after competitive tendering. The contract (for a 24m fisheries patrol vessel) was expected to start in production in July 1990 and, although there would be a gap in the production level between major projects, would give a good base of production for the upcoming fiscal year. Unfortunately, major problems with the Government's design revealed during the Company's design check required a re-design of the vessel and a delay in the start of production to an unspecified date.

The major shipbuilding production in the current fiscal year was the completion and delivery of the second Usen fishing trawler (Hull 51) in August 1989, and the third Usen fishing trawler (Hull 52) in January 1990. In addition, two R7-J fast rescue craft were delivered in December 1989 and an 11 metre Self-Propelled Aluminum Vessel for the Canadian Coast Guard was fabricated up to a 70% completion at the fiscal year end.

The ship repair production was raised considerably in the year by two unplanned projects: (1) Docking, refit and major strut repairs to the ferry "Marine Courier," and (2) Major storm damage repairs to the large self unloading bulk carrier "Captain Edward V. Smith."

Industrial production was steady in the fiscal year with the fabrication of navigational buoys (Coast Guard), metal platforms (Maritime Electric) and many miscellaneous small jobs. There was, in addition, the production of vessel parts utilizing the CAD/CAM system.

The Union Agreement expired on 28 February 1990 and, after serious negotiaitons (and the assistance of a Conciliation Officer), a new agreement was signed on 14 August 1990. Union - Management relations remain generally good.

The financial statements for the fiscal year ending 31 March 1990 showed sales revenue of $13,676,620 and a net profit of $559,000. Georgetown Shipyard contributed, in addition to the net profit, $5,061,000 directly into the Prince Edward Island economy through $3,411,000 in salaries, wages and fringe benefits and $1,650,000 in local purchases of materials, equipment, supplies and services.

The Board of Directors would like to extend our thanks and appreciation to all the tradesmen, staff and management for their support and efforts in the operation of the shipyard.

Respectfully submitted,

G. Fitzpatrick
Chairman of the Board

GEORGETOWN SHIPYARD INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

March 31, 1990

May 4, 1990

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the statement of financial position of Georgetown Shipyard Inc. as at March 31, 1990 and the statements of surplus (deficit), income and changes in financial position and the schedule of expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements and notes appended thereto present fairly the financial position of the corporation as at March 31, 1990 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

GEORGETOWN SHIPYARD INC.

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 1990

ASSETS

	1990 $	1989 $
CURRENT ASSETS		
Accounts receivable	1,020,066	1,088,096
Inventory of materials	886,995	1,277,298
Incomplete contracts - net (note 3)	43,669	237,394
Prepaid expenses	70,540	79,034
	2,021,270	2,681,822
DEFERRED CHARGES AND SUNDRY ASSET	26,477	41,676
FIXED ASSETS (note 4)	1,243,121	892,828
	3,290,868	3,616,326

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 5)	1,444,671	684,619
Accounts payable and accrued liabilities	659,557	2,298,231
	2,104,228	2,982,850
A.D.B. LOAN — WATER SUPPLY SYSTEM	26,477	29,419
NON-INTEREST BEARING ADVANCE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	578,246	578,246
APPRAISAL INCREASE CREDIT (note 4b)	9,694	12,588
	2,718,645	3,603,103
CONTINGENCIES (note 7)		
SURPLUS	572,223	13,223
	3,290,868	3,616,326

GEORGETOWN SHIPYARD INC.

STATEMENT OF SURPLUS (DEFICIT)

FOR THE YEAR ENDED MARCH 31, 1990

	1990	1989
	$	$
SURPLUS (DEFICIT) — BEGINNING OF YEAR	13,223	(532,810)
Advances from the Province of Prince Edward Island as payment towards the prior year's loss	—	532,810
	13,223	—
Net income for the year	559,000	13,223
SURPLUS — END OF YEAR	572,223	13,223

GEORGETOWN SHIPYARD INC.

STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31, 1990

	Hull Contracts $	Repair Contracts $	Industrial Contracts $	Total 1990 $	Total 1989 $
BILLINGS					
Made during the year	5,768,823	1,678,487	254,292	7,701,602	10,829,705
Decrease (increase) in billings made on incomplete contracts					
Opening balances	5,866,800	216,832	60,871	6,144,503	2,230,800
Closing balances	(129,750)	(39,735)	—	(169,485)	(6,144,503)
	(5,737,050	177,097	60,871	5,975,018	(3,913,703)
Net sales - completed contracts	11,505,873	1,855,584	315,163	13,676,620	6,916,002
COSTS					
Incurred during the year .	5,161,098	1,221,564	(87,203)	6,295,459	10,293,643
Increase (decrease) in costs incurred on incomplete contracts					
Opening balances	5,699,782	311,537	370,578	6,381,897	2,865,583
Closing balances	(189,735)	(23,419)	—	(213,154)	(6,381,897)
	(5,510,047)	288,118	370,578	6,168,743	(3,516,314)
Net costs - completed contracts	10,671,145	1,509,682	283,375	12,464,202	6,777,329
GROSS PROFIT COMPLETED CONTRACTS	834,728	345,902	31,788	1,212,418	138,673
EXPENSES (schedule)				2,709,077	2,540,834
Applied to net costs				2,043,984	2,081,181
				(665,093)	(459,653)
OPERATING INCOME (LOSS)				547,325	(320,980)
OTHER INCOME (note 6)				11,675	313,825
INCOME FOR THE YEAR BEFORE EXTRAORDINARY ITEM ..				559,000	7,155
EXTRAORDINARY ITEM					
Insurance proceeds in excess of recorded costs				—	20,378
NET INCOME FOR THE YEAR				559,000	13,223

GEORGETOWN SHIPYARD INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED MARCH 31, 1990

	1990 $	1989 $
Salaries, wages and benefits	1,301,478	1,344,822
Utilities	143,856	143,319
Security	67,892	66,182
Office and postage	49,745	48,671
Repairs and maintenance	224,670	270,863
Advertising and promotion	35,110	26,452
Supplies and small tools	222,502	279,216
Travel	44,153	28,076
Insurance premiums	73,436	69,641
Taxes	15,934	14,422
Rentals	41,759	49,621
Director fees and expenses	17,985	17,247
Professional fees	32,206	8,767
Bad debts	43,888	42,623
Bank charges	3,445	4,296
Interest expense (income)	151,245	(13,300)
Truck expense	10,084	11,500
Inventory adjustment account	39,052	(42,033)
Miscellaneous	23,062	30,721
Depreciation and amortization	167,575	139,728
	2,709,077	2,540,834

GEORGETOWN SHIPYARD INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1990

	1990 $	1989 $
OPERATING ACTIVITIES		
Net income for the year	559,000	13,223
Items not affecting cash —		
Depreciation	170,469	142,622
Amortization of appraisal credit	(2,894)	(2,894)
	726,575	152,951
Net decrease (increase) in non-cash working capital balances related to operations	(978,122)	2,102,873
	(251,547)	2,255,824
FINANCING ACTIVITIES		
Payment received from the Province of P.E.I.	—	532,810
Reduction of A.D.B. loan - water supply	(2,942)	(2,942)
	(2,942)	529,868
INVESTING ACTIVITIES		
Decrease in deferred charges and sundry asset	15,199	2,942
Purchase of fixed assets - net	(520,762)	(430,908)
	(505,563)	(427,966)
DECREASE (INCREASE) IN BANK ADVANCES DURING THE YEAR	(760,052)	2,357,726
BANK ADVANCES — BEGINNING OF YEAR	684,619	3,042,345
BANK ADVANCES — END OF YEAR	1,444,671	684,619

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1990

1. PROVINCIAL CROWN CORPORATION

The Corporation was established in 1974 by a special act of the Legislature of the Province of Prince Edward Island. Profits and losses of the Corporation are to be taken into the consolidated fund of the Province when they become apparent unless the Lieutenant Governor in Council declares by Minute in Council that the profit is to be retained or the loss recouped.

2. ACCOUNTING POLICIES

Long-term shipbuilding contracts -

The Shipyard follows the completed contract method of accounting for revenues and expenses relating to contracts. Under this method, progress billings on incomplete contracts less costs are included as a current liability and costs in excess of progress billings are recorded as a current asset. Income is recorded when a contract has been completed; however, any anticipated or known losses are recorded by way of a provision at the time they are known.

Inventories -

Inventories are valued at the lower of cost and market. Cost is defined as average cost. Market is defined as replacement cost.

Depreciation and amortization -

Depreciation of fixed assets is calculated using the straight line method at the annual rates of 4% for land improvements, 4% for steel and block frame buildings, 6 2/3% for wood frame buildings, 12 1/2% for the launchway and marine railway improvements and 20% for the machinery and equipment.

The appraisal increase credit is being amortized using the straight line method at the annual rate of 6%.

3. INCOMPLETE CONTRACTS

	Ship Building $	Ship Repair & Industrial $	Total 1990 $	Total 1989 $
Costs —				
Material	104,624	7,625	112,249	4,983,975
Labour	42,860	7,924	50,784	704,855
Overhead	42,251	7,870	50,121	693,067
	189,735	23,419	213,154	6,381,897
Progress billings —				
Net of federal sales tax	129,750	39,735	169,485	6,144,503
COST IN EXCESS OF PROGRESS BILLINGS	59,985	(16,316)	43,669	237,394

GEORGETOWN SHIPYARD INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1990

4. FIXED ASSETS

(a) These are classified as follows:

	1990			1989
	Recorded Value $	Accumulated Depreciation $	Net $	Net $
Land and improvements	141,682	30,881	110,801	112,695
Buildings	957,597	451,771	505,826	294,965
Marine railway improvements	99,525	44,241	55,284	67,724
Launchway	161,172	126,170	35,002	40,768
Machinery and equipment	1,431,564	895,356	536,208	376,676
Tug	27,163	27,163	—	—
	2,818,703	1,575,582	1,243,121	892,828

(b) The land and land improvements, buildings and launchway are recorded at appraised values established January 24, 1974 plus subsequent additions at cost less disposals at the recorded value, except the new stores building which is recorded at its actual cost.

The excess appraised value over the original recorded value is $48,240 and the resulting credit is shown as an appraisal increase credit less amortization of $38,546 accumulated to date.

The marine railway is owned by the Province of Prince Edward Island with improvements being paid for by Georgetown Shipyard Inc.

5. SECURITY FOR BANK ADVANCES

Guarantees from the Province of Prince Edward Island to the extent of $2,000,000 expiring March 31, 1991 have been pledged as security for bank advances.

6. OTHER INCOME

Other income consists of:	1990 $	1989 $
Subsidy previously deferred	—	159,538
Net insurance claim recovery of lost earnings	—	139,174
Sundry sales	11,675	15,113
	11,675	313,825

7. CONTINGENCIES

(a) During the 1985 fiscal year the company was named as defendant in lawsuits arising from a fire in August 1983, at the Georgetown Wharf. Statements of claim have been received by the company. The company has received an independent opinion that the amount of the claim is covered by liability insurance. However, no settlement of this matter has taken place and the deductible portion of the liability insurance remains as an accrued liability.

(b) The company has received notice that a claim was being made as a result of a ship-building contract completed in the 1984 year. It is the opinion of management that the liability, if any, is undeterminable at this time. However, provision has been made in the accounts to allow for expenditures to defend the action and possible settlement of the claim.

(c) The company has received notice of a potential claim from the Receiver of a company which Georgetown Shipyard Inc. had previously carried on business. It is management's belief from discussions with the Receiver that the potential claim will be settled without cost to Georgetown Shipyard Inc.